



# Statement of Investment Policy and Objectives

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AUCKLAND WAR MEMORIAL MUSEUM

## 1. Introduction

- 1.1. This Statement of Investment Policy and Objectives (“SIPO”) prepared by the Trust Board of Auckland War Memorial Museum (“AWMM” or “the Museum”) sets out the objectives, policies and beliefs governing the decisions regarding investment of the Museum’s investment funds.
- 1.2. The Trust Board is aware that it is subject to New Zealand legislation, particularly the Prudent Person rules of the Trusts Act (2019) and the Auckland War Memorial Act (1996).
- 1.3. The Museum is a registered charity and is exempt from New Zealand income tax.

## 2. Funds

- 2.1. The Museum has three separate Funds. These are:
  - 2.1.1. The Operational Fund: These funds support the day-to-day operations of the Museum (e.g. staff salaries, rent, consumables).
  - 2.1.2. The Capital Use Investment Pool (Asset Replacement Reserve): These funds support the Museum’s capital expenditure plan, which is effectively a three-to-five-year plan.
  - 2.1.3. The Endowment Fund: This consists of Trusts and Bequests funds, and also internally generated reserves. These funds are funded from donations, bequests, and fundraising activities. The internal reserves include the Exhibition Reserve, the Heritage Acquisition Reserve, and the Research and Publication Reserve.

## 3. Responsibilities

- 3.1. The Trust Board is responsible for the general oversight of the Funds, including:
  - 3.1.1. Approving the SIPO;
  - 3.1.2. Delegating to the Audit & Risk Committee and Investment Staff certain responsibilities for the day-to-day management of the Funds;
  - 3.1.3. Periodically reviewing results of the Funds.
- 3.2. The Trust Board has delegated the following responsibilities to Audit & Risk Committee:
  - 3.2.1. Recommend the approval of the SIPO and monitor its continuing applicability;
  - 3.2.2. Periodically review the Funds’ target asset allocation and allowable ranges to ensure that these are aligned with the Funds’ long-term objectives;
  - 3.2.3. Approve suitable portfolio benchmarks for the Funds to measure each asset class and total portfolio performance;

- 3.2.4. Recommend to the Trust Board for approval Investment Manager selection.
- 3.3. The Director and CFO/Director Finance shall advise Audit & Risk Committee as regards investment decisions.
- 3.4. The AWMM **Investment Staff** shall be responsible for:
  - 3.4.1. Assisting with the implementation of the investment decisions made by the Audit & Risk Committee and Trust Board;
  - 3.4.2. Managing the Funds’ relationships with external service providers, including but not limited to: Investment Advisor, Investment Manager(s), Custodians, and Auditors;
  - 3.4.3. Keeping the Investment Manager(s) informed of the projections of future funds available for investment or alternatively of investment funds expected to be withdrawn.
- 3.5. The Trust Board periodically appoints an **Investment Advisor**. The current Investment Advisor is Melville Jessup Weaver.
- 3.6. The role of the Investment Advisor is to:
  - 3.6.1. Assist the Trust Board in defining the Funds’ investment objectives and risk tolerance;
  - 3.6.2. Recommend the asset allocation options for the Funds and define the allowable ranges;
  - 3.6.3. Review and endorse the Investment Manager’s benchmarks used to measure the performance of the portfolio;
  - 3.6.4. Review and recommend changes to the SIPO;
  - 3.6.5. Conduct manager research and due diligence on investment managers, as directed by the Trust Board.
  - 3.6.6. Actively monitor and review the Investment Manager(s). Communicate to the Audit & Risk Committee or Investment Staff any issues affecting the portfolios. Provide guidance on prudent action as required;
  - 3.6.7. Provide assistance relating to the responsible investment policy including a full portfolio ESG exposure look-through analysis screen for ‘undesirable’ investments at least annually.
- 3.7. The **Investment Manager(s)** has been appointed by the Trust Board to manage the Funds’ investments.
- 3.8. The Investment Manager(s) has responsibility for stewardship of the investment assets and for achieving the investment objectives as set out in the SIPO.

#### **4. Investment Beliefs**

- 4.1. The Trust Board's approach to investing is framed by a set of clearly defined overarching principles which are regarded as fundamental and constant. These drive investment decisions. The Trust Board's intention is to manage the investment portfolios in accordance with these principles, regardless of cyclical ebbs and flows in the capital markets, and this documentation of these principles is intended to ensure continuity of purpose and implementation.
- 4.2. The Trust Board's investment beliefs are:
  - 4.2.1. Strong governance and well-defined decision making structures enable sound investment decision making.
  - 4.2.2. Setting an asset allocation that is appropriate to the time horizon, objectives and risk tolerance is the most important decision to be made as it is the primary driver of long-term success.
  - 4.2.3. An allocation to equities is required to support spending while preserving the purchasing power of longer term portfolios.
  - 4.2.4. A portfolio broadly diversified across and within asset classes improves the risk to return ratio over time.
  - 4.2.5. Active managers can add value over benchmarks, however in some markets/asset classes, manager structures that include a passive approach may be more appropriate.
  - 4.2.6. Costs matter and in some asset classes low-cost passive strategies can be blended with higher cost active strategies to minimise the overall cost of investing. The primary goal is to maximise net of fees returns at an acceptable level of risk.

#### **5. Operational Fund**

- 5.1. The Operational Fund is expected to be utilised significantly within a 12-month period. It exists to meet the needs of the operational activities being undertaken by the Museum.
- 5.2. A high degree of liquidity and certainty of value is required for the Operational Fund.
  - 5.2.1. The Operational Fund is invested in cash and cash equivalents. As security of the cash fund is critical, any investment in a cash fund/ Term Deposits must be through one of the major registered trading banks.
- 5.3. The objectives of the Operational Fund are:
  - 5.3.1. To achieve a positive return, after fees, over rolling one year periods.
  - 5.3.2. To generate a return in the top half of a peer group of comparable cash funds over rolling three-year periods.

#### **6. Capital Use Investment Pool**

- 6.1. The Capital Use Investment Pool (CUIP) is expected to be utilised significantly within a period of 12-18 months. It exists to meet the capital works programme being undertaken by the Museum.
- 6.2. The Museum is expected to draw down capital from the CUIP in order to deliver the capital works programme in accordance with the Trust Board directive.
- 6.3. A high degree of liquidity and certainty of value is required for the CUIP
  - 6.3.1. The CUIP is invested in cash and cash equivalents. As security of the cash fund is critical, any investment in a cash fund/ Term Deposits must be through one of the major registered trading banks.
- 6.4. The objectives of the CUIP are:
  - 6.4.1. To achieve a positive return, after fees, over rolling one year periods.
  - 6.4.2. To generate a return in the top half of a peer group of comparable cash funds over rolling three-year periods.
  - 6.4.3. Should the utilisation of CUIP change significantly, the Investment staff would review and recommend changes to Audit & Risk Committee.

#### **7. Endowment Fund**

- 7.1. The Endowment Fund comprises several sub-funds which exist with specific purposes. Overall, the Endowment Fund has a long-term time frame.
- 7.2. The Endowment Fund is invested with a balanced growth investment risk profile (approximately 70% in growth assets such as equities on average).
- 7.3. The Endowment Fund's objectives are to:
  - 7.3.1. To grow the value of the Fund, after all fees and costs, and after spending draw downs, at a rate which exceeds the CPI over the long term.
  - 7.3.2. To achieve a return, after fees, which exceeds the change in the CPI plus 3% per annum, over rolling five year periods.
  - 7.3.3. To achieve a return, after fees, which exceeds the return of the Investment Manager's benchmark (which comprises a combination of market indices), measured over rolling three year periods.
  - 7.3.4. To achieve a return in the top half of comparable balanced growth diversified funds over rolling three year periods.

- 7.4. The Endowment Fund is managed to the following asset allocation.

| Asset Class                       | Target Policy | Policy Ranges        |
|-----------------------------------|---------------|----------------------|
| <b>Growth Assets</b>              | <b>70.0%</b>  | <b>60.0% - 80.0%</b> |
| Australasian Equities             | 20.0%         | 10.0% - 30.0%        |
| Global Equities                   | 40.0%         | 25.0% - 55.0%        |
| Alternatives<br>(absolute return) | 10.0%         | 0.0% - 20.0%         |
| <b>Income Assets</b>              | <b>30.0%</b>  | <b>20.0% - 40.0%</b> |
| Australasian Bonds                | 10.0%         | 0.0% - 20.0%         |
| Global Bonds                      | 20.0%         | 10.0% - 30.0%        |
| Cash                              | 0.0%          | 0.0% - 10.0%         |

- 7.5. Currency hedging is undertaken as follows:
- 7.5.1. Global equities: target of 75%, with an allowable range of 50% to 100%.
- 7.5.2. Australasian equities: target of 0%, with an allowable range of 0% to 100%.
- 7.5.3. Australasian and global bonds: target of 100% with an allowable range of 90% to 110%.
- 7.6. The Investment Fund's spending policy for Trusts and Bequests is to have available for spending 3.0% of the opening value of the Investment Fund each year.
- 7.7. Capital project spending is not restricted by the preceding clause. From time to time, the Trust Board will authorise additional spending for the purposes of capital projects.

## 8. Risk Management

- 8.1. The Trust Board seeks to maximise total return of the Funds at an acceptable level of risk. Risk is multifaceted. There are many sources of risk that the Trust Board, Audit & Risk Committee, Investment Staff, and Investment Manager monitor and manage, including: operational risk, market risk, credit risk, liquidity risk, currency, and derivatives exposure.
- 8.2. All funds managed by the Investment Manager(s) must (1) operate within a robust regulatory regime and (2) have an independent custodian which is regularly audited by a suitable external party.
- 8.3. Where the Trust Board determines that is appropriate to use a pooled investment vehicle, it will assess the Investment Manager's mandate and risk controls for suitability and consistency with its risk appetite.
- 8.4. The use of derivatives as part of the investment strategy may be permitted under the terms of the Investment Manager's mandate. The Trust Board

expects the mandate to ensure that derivatives are used to manage portfolio risk or achieve transactional efficiency and not to speculate or gear/leverage the portfolio.

- 8.5. The investment funds must hold sufficient investments that are readily marketable so that there is sufficient liquidity to meet payments as they fall due.
- 8.6. The Trust Board has the following expectations for the Funds' risk profile. A breach of these risk levels will lead to an immediate review of the investment approach and/or Investment Manager(s).
- 8.6.1. Operational Fund: Any negative return, measured over a monthly time horizon.
- 8.6.2. CUIP: A negative annual return no more frequently than one year in five, and a negative annual return worse than -10% no more frequently than one year in ten.
- 8.6.3. Endowment Fund: A negative annual return no more frequently than one year in three, and a negative annual return worse than -20% no more frequently than one year in ten.

## 9. Rebalancing Policy

- 9.1. Allowable ranges are set in the preceding tables for each of the Funds.
- 9.2. The investment mix will be allowed to vary within these ranges due to market movements and cash flows. If the investments breach one of these ranges, rebalancing transactions will be initiated by the Investment Staff to bring the investment fund back within the allowable ranges.
- 9.3. The Investment Staff may seek dispensation from the Audit & Risk Committee to rebalance the investment funds before a breach occurs if
- 9.3.1. Market movements are such that a breach of ranges is deemed likely to occur in the near term; or
- 9.3.2. The Investment Staff are aware of large upcoming cashflow requirements and deem it prudent to increase the weight to highly liquid investments in anticipation of withdrawals in the near term.

## 10. Portfolio Benchmarks

- 10.1. Appropriate benchmarks are established to measure performance of the Funds at the total portfolio level and at the asset class level.
- 10.2. These benchmarks will, in the normal course of business, be the market indices selected by the Investment Manager(s). However, the Audit & Risk Committee may select other benchmarks if it believes these to be more appropriate.

## 11. Review

- 11.1. The SIPO is reviewed annually at a high level by the Audit & Risk Committee to ensure it remains fit for purpose.

- 11.2. The SIPO undergoes an in-depth review triennially. These reviews are conducted by the Audit & Risk Committee under advisement of an Investment Consultant, with the results presented to the Trust Board. These reviews will consider, among other matters, the asset allocation and investment objectives.
  - 11.3. The SIPO's next triennial review is due no later than August 2024.
  - 11.4. The Trust Board, under advisement from the Audit & Risk Committee, may bring forward a SIPO review. Reasons for doing so may include: a significant change in investment markets, at the Investment Manager, or with respect to the Funds' purposes and circumstances.
  - 11.5. In the short-term, the Investment Manager(s) is monitored by the Audit & Risk Committee through the quarterly performance reporting provided by the Investment staff.
  - 11.6. The Trust Board reviews the Investment Manager(s) formally triennially. These reviews will consider qualitative matters (such as the strength/alignment of the business, the quality of the investment personnel and the strength of the investment process) and quantitative matters (such as performance and the level of fees).
  - 11.7. The Investment staff will advise the Trust Board if a review of the Investment Manager should be brought forward because of developments with the Investment Manager.
  - 11.8. The Investment Manager's next triennial review is due no later than August 2023.
  - 11.9. The Investment Advisor be reviewed by the Trust Board triennially. These reviews will consider matters such as the quality of advice provided and costs.
  - 11.10. The Investment Advisor's next triennial review is due no later than August 2025.
- Balancing the financial objectives of the Museum with the goal of creating an overall portfolio consistent with the Museum's core social values and mission;
  - The goal of the Funds to generate a sustainable stream of distributions to support the Museum's needs.
- 12.2. The Trust Board, with support from the Investment staff, will uphold these goals by working with an Investment Manager(s) that adheres to the Museum's social values without adversely impacting investment performance.
  - 12.3. The Audit & Risk Committee will:
    - Seek to include responsible investment managers in all manager searches in investment analyses and decision making processes;
    - Favour such managers that demonstrate reasonably comparable investment characteristics (i.e., competitive performance, fees, team stability, etc.) relative to their non-RI peers.
    - Consider whether investment activities are consistent with relevant international standards, New Zealand legislation, or other Crown actions;
    - Integrate consideration of environmental, social and governance (ESG) issues;
    - Seek appropriate disclosure and transparency on ESG issues by the entities in which the Museum invests.

## **12. Responsible Investment Policy**

- 12.1. The Trust Board's investment decisions must be consistent with its mandate, which is to manage the Funds in a prudent and commercial manner consistent with:
  - Meeting the Trust Board's obligations under the Auckland War Memorial Act (1996);
  - Best-practice portfolio management;
  - Maximising return without undue risk to the Funds as a whole;
  - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community;
  - Considering investments that provide positive social returns in addition to the required financial return;